RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Jan. 8, 1992 **LETTER 1086**

Dec. 27 DJIA 3101.52; PTI 3413; A-D Ratio -10.46
Jan. 3 DJIA 3201.47; PTI 3435; A-D Ratio -9.60
Dow Yield: 2.80%; Dow P/E: 31.8; DowPow: 140
Dow 200-day MA: 2938; Dow 30-day MA: 2982
Dow Times Book Value: 2.40; PTI 89-day MA: 3395
Percentage of Undervalued Blue-chips: 9%

1992: At the beginning of the year, everyone wants predictions. It doesn't matter whether the predictions are right or wrong, whether they appear logical or absurd, or whether they are bullish or bearish -- people just love those predictions.

All right, I'll offer a few of my own. This first one is strictly from my gut, it's an intuition. I'm predicting that 1992 is going to be a year of major surprises, major upsets, major reversals in many tradeable items. Mark me down as labeling 1992 as "the year of the shock."

What shocking events? Hey, if I knew what they were, if I could pin-point them, they wouldn't be shocks, would they? At any rate, here are a few possibilities. (1) The dollar's decline becomes disorderly, and the Fed has to actually raise rates to support the buck. Now that would be a shock, wouldn't it? (2) The economy remains stubbornly in recession or semi-recession, despite all the Fed's handiwork in bringing interest rates down to a 20-year low. (3) Bush's popularity continues to slump (I know I'm no Bush fan), and darned if he doesn't lose the election. Mmm. (4) The economy turns up strongly, interest rates surge higher, and (surprise) the stock market tanks along with bonds. (5) Russia and the other Soviet countries experience food riots and civil war as their economies collapse. (6) All the foregoing are bad news, so how about a good news surprise? Here's one -- business picks up noticeably, the funds go on a continued wild buying spree, a giant short squeeze develops, and the market sky-rockets. It's a genuine third-phase bull market explosion. (7) Finally, here's an item suggested by my old friend, Eliot Janeway. Responding to pressure, Bush dumps Quayle and makes a deal -- Buchanan is his new running mate. Now don't laugh, we've seen Bush do the old switcheroo before, remember? OK, enough fantasy, now let's get down to reality.

THE PICTURE: The big question on every thinking investor's mind -- is the stock market forecasting a forthcoming upturn in business, or are we simply seeing a temporary shift in asset preference towards stocks, a shift that has been triggered by the Fed's frantic slashing of interest rates? Honest, I don't have the final answer to that one.

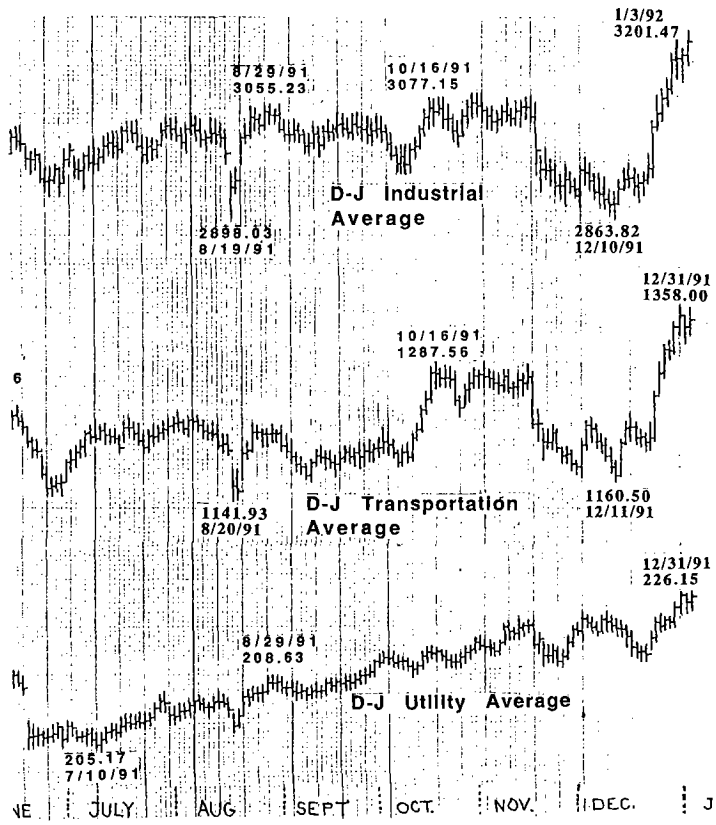
Or -- is this the big question? Everyone knows the folklore about cats having nine lives. So could we be looking at a "cat-a-bull," a hybrid bull with the lasting power of the fabled feline? A few weeks ago the market picture looked grim -- all except for that Transportation Average, which stubbornly refused to decline. I started the last Letter (prior to the big year-end rally) with the sentence, "Deliverance, or saved (so far) by the Transports."

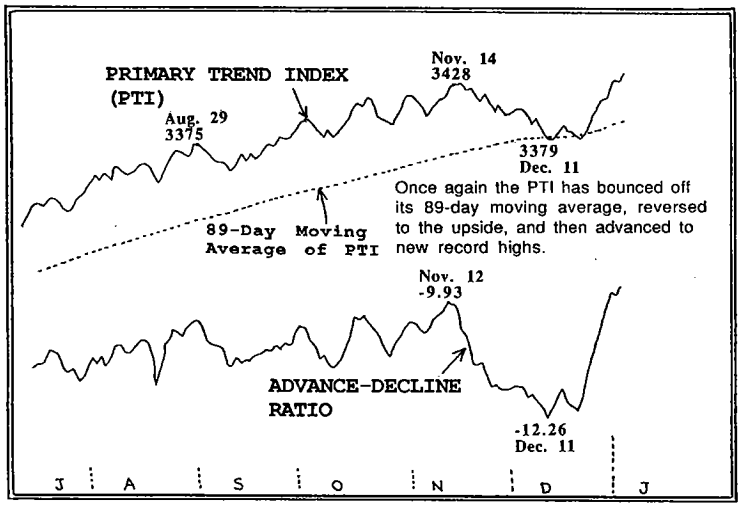
Despite weakness in the D-J Industrial Average, despite a deep and lingering recession, despite confusion at the White House, despite negative earnings for the Transportation Average -- that Average refused to break down. So I ended the last Letter by saying, "Technically, I think that the Transport action is the biggest plus in the bull argument, and I'll admit that (so far) I'm impressed."

I was even more impressed by the upside market explosion which occurred on the five days before Christmas and in the days that followed. The results were impressive. On December 17 the Dow closed at 2902.28. By January 31, the last day of the year, the Dow closed at 3168.83. That represented a fat gain of 266.55 Dow points (or 9.1%) in only nine trading days. Record highs in the Dow were accompanied by record highs in almost all the other averages and indices from the NYSE Composite to the NASDAQ Composite, from the S&P 500 to the MidCap 400.

Next question: What does it all mean? What we saw during the last two weeks of the year was obviously a "buying panic." Every stock that wasn't nailed down headed north. It was as if overnight, everyone wanted to get into the market. The funds and institutions wanted "in" because they were caught under-invested or because cash was pouring in from the huge mountain of money on the sidelines (via the money market funds). The public wanted in because the market was going up, and because they didn't want to be left behind ("Heck, why not speculate when I'm getting less than 4% in my money market fund?").

My honest opinion of what's been happening? Here it is. I think Fed Chairman Greenspan screwed up royally -- he spent his first term in office "fighting inflation" with tight money while trying to be a second Paul Volcker. Then when the economy fell apart and the Bush Administration started screaming, Greenspan caved in under the pressure. To put it politely, Greenspan panicked. The Fed dropped the discount rate to 3.5%, the lowest rate since 1964. At the same time, the Fed wildly pumped high-powered money into the banking system (bank reserves grew at about a 23.5% rate in November and at about a 27% rate in December). Thus the Fed has again set the stage for inflation which could easily arrive around mid- to late-1992.





The stock market reacted to the frightened Fed's action by surging higher. Bond yields collapsed along with the battered dollar. And President Bush urged consumers to buy something, while at the same time he blamed Japan for a good part of the recession. Overseas, the much saner and totally independent Bundesbank literally spit in the Fed's eye as it boosted the German bank rate, thereby firming interest rates throughout Europe. So whether the US stock market is predicting better times ahead or whether the market is simply reacting to the actions of a panicked Fed remains to be seen.

Here's something that I want to emphasize. There won't be an economic recovery unless there is a recovery in housing and autos (which comprise about half of GDP). And there won't be a recovery in those areas unless the American consumer begins to feel confident about his future. Will low interest rates revive consumer confidence? Will the rising stock market revive confidence? Will the promise of a tax cut revive confidence? Will George Bush's rushing around the world revive consumer confidence? We won't know until well into 1992, but I'll admit that I remain a bit skeptical. Persistent pessimism on the part of the American consumer (and I mean PERSISTENT) could be one of the surprises of 1992.

But any way you look at it, it's been "resurrection time" on Wall Street -- a revival of the bull. The Dow closed the year near 3200, the Transports rallied to the mid-1300s and my PTI ended the year at a new record high. As for the short sellers, they experienced the scare of their lives -- we've undoubtedly seen the biggest short squeeze of recent years.

So what do we do now? Do we invest or add to equity positions in a terribly overvalued stock market? Or do we simply sit tight with what stocks we have? Or do we opt for bonds, which are looking strained and rather toppy? Or do we just play it safe and patient with short-term Treasury paper and foreign currencies?

Personally, I've pretty much chosen the last option although, as stated before, I do hold a limited position in closed-end funds (the best acting of which, by the way, has been General American Investors -- Zweig Fund has also done well, and its price is really a tribute to Marty Zweig, since ZF is the only major closed-end fund that sells at a fat premium).

As to further comments on what to do, a few Letters back I said that I thought that this would be a good time to reprint a piece that appeared in Letter 844 back in September 1982. I called it "Rich Man, Poor Man," and I've had more requests for this piece than anything I've written in 33 years. Here it is.

RICH MAN, POOR MAN: In the investment world the wealthy investor has one major advantage over "the little guy," the stock market amateur and the neophyte speculator. The advantage that the wealthy investor possesses is that he DOESN'T NEED THE MARKETS. I can't begin to tell you what a huge difference that makes, both in one's mental attitude and in the actual handling of one's account.

The wealthy investor doesn't need the market because he already has all the income he needs. He has money coming in via bonds, T-bills, money market funds, real estate and stocks. In other words, the wealthy investor never feels pressured to "make money" in the market.

The wealthy investor tends to be an expert on **values.**When bonds are cheap and bond yields are irresistibly high, he buys bonds. When stocks are on the bargain table and stock yields are attractive, he accumulates stocks. When real estate is a great value, he buys real estate. When great art or fine jewelry is on the "give-away table," he buys them. In other words, the wealthy investor puts his money where the values are. And if there are no outstanding values, the wealthy investor waits. He can afford to wait. He has money coming in daily, weekly, monthly. You see, he doesn't NEED the stock market or any other market. He knows what he's looking for, and he doesn't mind waiting weeks, months or years to find it (they call that patience).

What about the little guy? This fellow always feels pressured "to make money," to "force the market to do something for him." When the little guy isn't buying stocks at 3% yields, he's off to Las Vegas or Atlantic City trying to win at craps. Or he's spending 10 bucks a week on lottery tickets or he's "investing" in some crackpot real estate scheme with an outfit that his bowling buddy told him about. And because the little guy is forcing the markets to "do something for him," he's a constant, chronic loser. The little guy doesn't understand values so he always overpays for what he buys. He loves to gamble, so he constantly has the odds against him. The little guy doesn't understand compounding, and he doesn't understand money. He's the typical American, and he's perpetually in debt.

Because the little guy is in hock, he's always sweating -- sweating to make payments on his house, his refrigerator, his car or his lawn mower. He's impatient, and he constantly feels pressured. He tells himself that he has to make money fast, and he dreams of those "big bucks." In the end, the little guy wastes his money in the market, he loses his money gambling, or he dribbles it away on some senseless scheme. In brief, this "money-nerd" spends his life running up the down-escalator.

Now here's the irony of it. If from the beginning the little guy had adopted a strict policy of never spending more than his income, he'd have some savings. Then if he'd taken that extra income and compounded it in safe, income-producing securities -- in due time he'd have money coming in daily, weekly, monthly -- just like the rich man. In short, the little guy would be a financial winner instead of a perpetual loser.

In closing this section, here are a few Russell definitions. Being Happy Financially is having no debt, owing nobody anything, having money coming in, and being able to reinvest that money -- all the while living on your earnings.

Technically Rich: Being in a situation where you can lose your job or your business, but still have enough income so that the loss of your job or business would make no difference in your standard of living.

Just Plain Rich: Having $5 million or more in income producing assets (no debt) and living in rural America. Or having $10 million or more in income producing assets (no debt), while living in a major US city or suburb.

Note: The $5 million and $10 million figures were the same one s I used in the 1982 article. I think they are still valid today.

As for living in America, here's how I view it. Food in the US is cheap -- in fact, it's a real bargain. (this is particularly true if you

don't eat a lot of meat). Housing or rent is cheap in rural America, fairly high in the big Coastal cities, modest in the colder states, but in general a heck of a lot cheaper than in most of Europe. Taxes are medium to high in the US, but unlike Europe we don't get much for our tax money -- except for BIG government. Medical is high in the US -- although the quality is excellent **if** you have the ability to pay for it. The worst thing about living in the US -- the quality of life is declining, particularly in the big cities, but almost everywhere. The worst aspect of the declining quality of life -- high crime rates are getting higher all the time.

INVESTMENT POSITION: With my PTI and almost all the major averages making new highs at the end of 1991, the question mark goes out of the box and the bull returns. But be careful and remember, I said 1992 will be a year of BIG surprises.

Last week I got a laugh out of a bumper sticker that I saw in sunny, downtown La Jolla. It said "Weather is here, wish you were beautiful." Applying the same twist, here's my investment advice. "Don't do something, just stand there." The fact is that I don't see anything terribly intelligent for the investor to do here. Stock valuations are ridiculously high, even higher than when I termed them "astronomical" a few Letters ago. Bonds are sky-high and interest rates are scraping 20- to 28- year lows. Gold and silver are on their respective fannies, and the dollar is sick but very oversold. So I'd say, at this point just sit with what you have and be patient. The New Year is going to bring new opportunities.

The drastic drop in interest rates is hurting a large segment of Americans, particularly those over 60 who tend to depend on the income from savings. In many cases, that income has been cut in half over the last two years, and the drop in income has impacted on them severely. For this reason, many people have opted for questionable, often illiquid, "higher income investments." It's very easy to lose capital doing something stupid, so please -- be careful.

A Side Effect Of Rates Cuts

People With Savings See Incomes Decline

By FLOYD NORRIS

It has been an article of faith among economists and government officials for decades that when the economy

Decline in Interest Rates Cuts Security of Retirees

By LARRY ROHTER
Special to The New York Times

BOCA RATON, Fla., Dec. 26 — Angry called Whisper Walk two years ago. David Schiller looks back to the 1980's as if fondly recalls earning ich as 15 percent interest on the he was then depositing in the those were the days, he said, could afford to dream of a ee retirement in some sunny

"We are working people who worked very hard and saved very hard, and now we find out that we are going to have less than we thought we would have. At the same time, health-care costs, taxes and everything else is still going up. My husband tells me not to

A few years ago I wrote that I was absolutely certain of only one thing -- that Americans' standard of living was headed down. For that reason, I wrote, the operative word for Americans in coming years will be "**income.**" I made my prediction based on the fact that we have mortgaged our future with an ocean of almost unmanageable debt. If you borrow a fortune to give a party, you may have a helluva party, but somewhere ahead you've got to pay the caterers. The US has been having a party ever since WWII, and the bills are adding up to gigantic proportions. Now the squeeze is on -- the squeeze is on individuals, on business, and on the cities and states. The federal government can "manufacture" money, so they don't worry about the bills. But our foreign creditors darn well worry -- and that's why the dollar is flirting with historic lows.

A good many of my analyst friends think the play in 1992 will be foreign bonds (where interest rates have probably hit their highs). I wouldn't argue with that one.

NOTES & QUOTES: Question: Why is Bush frantic about the economy? Answer: Maybe because no president has ever been re-elected when real after-tax income grew less than 3.8% in the 12 months leading up to the election. Fact: The current rate is under 1%.

President Bush can't understand why the public is worried about the economy. That's understandable, Bush has never been laid off or fired from a job. And oh yes, Bush pays little or no state or local taxes. Bush rents an apartment in a Houston hotel, and claims he's a Texas resident (Texas has no state tax). But Bush spent only 14 days in Houston last year. How does he do it? DC has a special law that frees people from paying DC taxes (9.5%) if they have a residence elsewhere. The law, naturally, is a boon to Washington's politicians.

President Can't Fathom Public's Economic Worries

By MIKE FEINSILBER
Associated Press Writer

WASHINGTON — President Bush expressed consternation yesterday about the public's deep anxieties over the economy. He said confidence is far lower than it was in the last recession when conditions were "a heck of a lot worse."

At a news conference, the president also defended his decision to take no union leaders on his forthcoming trip to Japan and three other Asian na-

* *

The really good news -- in my lifetime (which has been quite a while), World War III has never seemed more remote. But there are implications; with the towering US debts and deficits and with compounding entitlements, I think there will be increasing political pressure to shrink the military. The fact is that in the world as it stands today, the US has no major, powerful enemy or, for that matter, any enemy that requires many millions of men to be in the armed services. So just watch the pressure to downsize the military.

That pressure is already hitting California, a state that finds itself in the worst economic downturn in half a century. Said State Treasurer Kathleen Brown a few weeks ago, "Every sector of our economy has been hit. California's recession has to be recast as severe. Tens of thousands of defense jobs have already been lost in the Golden State, and it's going to be just as bad in 1992."

* *

Speaking of troubles, Westinghouse Electric has to go to the head of the class. The big problem is a subsidiary, Westinghouse Credit Corp., which so far this year has lost a mind-blowing $2.66 billion, mostly in rotten real estate loans. The debacle is so bad that some people are calling Westinghouse "a baby RTC." How does the market regards WX? Well, the Westinghouse 10-year bonds provide a yield that's a full 1.8% above 10-year Treasury bonds.

* *

I've bad-mouthed California in recent Letters, but notice, dear readers, that I still live here. I guess I feel like the subscriber who just sent me this letter: "I'm a native-born Californian, vintage 1929. I'm a retired wine maker, who can't find a better place to move to. You wrote a piece about who moved where and at what cost -- like Nevada -- bah. Idaho, beautiful for three months a year and freeze your you-now-what off the rest of the year. My wife and I have looked from Taos to Santa Fe, to Aspen, Telluride, San Juan Islands, Seattle, Hawaii, Tahiti, Fiji, New England and on and on. But when we get back to the Napa Valley we say, 'God, but it's beautiful here, and we only have 20 three-star restaurants in the valley!'" (G.B., St. Helena, CA). Russell comment: Yeah, I know what you mean, and that's why I'm still in California.

However, there are problems, and maybe the worst of the problems (aside from the shocking deficits) is that California is losing its manufacturing base. California is finding that you can't prosper just by selling hamburgers and real estate -- you've got to produce something. Furthermore, California (like NY) is losing its wealthy and its middle class and its manufacturers -- and it's gaining in unskilled immigrants and indigents. Get this -- currently there are six taxpayers in California for every five tax recipients, and it is predicted that in six years there will be more tax recipients

than tax payers. So Governor Wilson is taking the big step -- he wants to cut welfare payouts up to 25% in the hopes of making the Golden State less of a welfare state (welfare costs in California have been increasing at the insane rate of 12% a year).

* *

Stanley Marcus, former CEO of Neiman Marcus, recently made a tour of NYC stores and concluded that inventories were too thin, salespeople were disinterested and the stores in general lacked pizzazz and glitz. Marcus went from store to store and concluded that they did too much advertising and provided too little service. In store after store Marcus was ignored by salespeople or provided with inferior service. Said Marcus, "Everybody talks about store service these days. When I tell them it takes at least three years and lots of money to get a good service program established, they look at me like I'm crazy."

* *

As the world population grows exponentially, garbage disposal becomes an almost unmanageable problem. The largest landfill in the world is in NY -- it's the 3,000 acre Fresh Kills Landfill on Staten Island. There are an estimated 6,300 landfills in the US, but Fresh Kills is the only dump site still operating in NYC. Fresh Kills boasts a total of three billion feet of garbage. One section of this giant mound stands 15 stories high. Fresh Kills, like another man-made structure, the Great Wall of China, is now visible with the naked eye from outer space. The site keeps 900 staff and contract workers on the job 24 hours a day, and it boasts a $38 million annual budget. Some say it will end up as "the monster that ate New York."

* *

Years ago a friend of mine said that by the mid-21st century the entire United States would be composed of nothing but freeways, shopping malls, dump sites and banks. He might be right -- all except for the banks.

* *

This is the 200th anniversary of our marvelous Bill of Rights. Sadly, few Americans know much about the Bill And even fewer realize that the main pressure for a Bill of Rights came from the anti-federalists, those who were opposed to the Constitution. The anti-federalists argued that amendments were needed in order to curb the national government. The men feared that the central government would be too strong, and that it would abuse the power of the people. Therefore, the early Bill of Rights amendments were written solely to check the federal authority, and there was no thought that they would apply to state governments. Thus, the First Amendment states that "Congress shall make no law respecting an establishment of religion . . ." Ironically, however, most modern court decisions based on the First, Fourth, Fifth, Sixth and Eighth Amendments have involved state, not federal actions.

The Bill of Rights are one thing, but I've been thinking about this for a while, and here goes. Americans are now obsessed with rights and entitlements, and I'm not talking about the rights in the Bill of Rights. Americans are demanding rights in every area -- gay rights, wheel-chair rights, immigrant rights, veteran rights, endangered species rights, suicide rights, right-to-life rights, prisoner's rights, the list goes on interminably. And there are the entitlements --people are entitled to school, three meals a day, pensions, shelter, psychiatric care, medical care, paraplegic care, legal representation, on and on. Funny, everyone talks about rights and entitlements, but there's damn little talk about RESPONSIBILITIES. No one in the new America, it seems, takes responsibility for himself. Break a leg, you sue the city. Lose a job, sue your employer. Drink too much, hell, sue the bar. Bump into a building, sue the landlord. It's the new, creative, easy way to make money. And the whole syndrome, in my opinion, is messing up this country. But maybe you feel differently.

* *

Increasingly, economists are thinking that higher taxes are killing the national economy. And it's higher taxes at the state level that are hurting even more than the federal taxes. California just boosted its tax take by $7 billion, Mario Cuomo in NY has passed four successive tax hikes of $1 billion or more, Pennsylvania boosted taxes by $3.3 billion, Connecticut upped taxes by $2 billion, New Jersey raised taxes by $2.7 billion, N. Carolina by $1 billion. Altogether the Tax Foundation states that 1990-91 state taxes will increase by $17 billion, making FY1991 the biggest revenue-raising year in history at the state level. Russell comment: Gee, I wonder why we're in recession?

* *

Go figure the Japanese. They may feel antagonistic towards Americans, but they love American culture. Currently a craze in Japan is authentic early Levi 501 blue jeans. Levis dated around the 1950s are selling in Japan for up to $2,000, and almost any authentic 501s are selling for fat prices. There are now about 100 shops selling American clothing in Japan; according to Japanese custom officials, 1,016 tons of used US clothing was exported to Japan in the first five months of 1991. The Japanese seem to have a passion for anything that smacks of the American "Wild West," and blue jeans fit the bill.

* *

Speaking of shopping, Minnesota is where it's happening. A domed shopping center called The Mall of America will open next summer covering (get this) 78 acres in Bloomington. In square footage it will be bigger than Red Square. The new Mall will contain (are you ready) 400 shops plus department stores. "Shop till you drop" -- you'll drop just walking around the Mall of America.

* *

A lot of economists are not taking Europe's drive for a single currency seriously. But I am. And it's clear that the main power behind the new currency will be Germany and its inflation-hating, totally independent Bundesbank. Two weeks ago the European Community decided that no later than 1999 there would be a European Central Bank and a single currency. The fact that sovereign governments are willing to give up autonomy shows just how desirable a single currency is and how anxious European states are not to be left out of the Community's "inner circle." The European currency unit (ECU) will be "the strongest currency in the world, more powerful than the dollar," stated French President Mitterand, because it will be "more stable" and underpinned by six or seven times the reserves behind the dollar. Says Jacques Pelkmans, senior fellow at the Center for European Studies in Brussels, "The drive to take part in this symbol of Europe is very strong in all these countries. No one wants to be a second-class European."

Russell Comment: If the US continues to go the way it's going, I'm very much afraid that the dollar is going to end up an unwanted currency, a victim of decades of inflation and mismanagement. By the end of this decade the two desirable currencies could well be the yen and the ECU, with dollars literally the pariah of paper currencies.

Europe's Currency May Be Rival For Dollar By The End Of Decade

PARIS (Reuter) — The European Currency Unit -- a basket of EC currencies — could be challenging the dollar within a decade for supremacy in the global financial system if European Community leaders agree this week on a plan for monetary union, economists Maastricht this week, endorse the decisions taken by their finance ministers in Brussels on Tuesday.

With Britain a notable dissenter, the ministers removed what EC Commission President Jacques Delors had called a sword of Damocles over mone-

* *

While many Americans shudder at the specter of growing Japanese power, few are aware of the growing power of the Chinese. There are 50 million Chinese centered in the three great metropolitan areas of Hong Kong, Taipei (Taiwan) and Singapore. The Chinese now dominate the economies of most of Southeast Asia, the world's fastest-growing area. In Thailand one-fifth of the population is Chinese but that one-fifth controls the majority of corporate assets. In Indonesia the 5% of the population that is Chinese controls 75% of corporate assets. In Malaysia, where they are officially discriminated against, the Chinese dominate the economy. Recently unknown Taiwan Aerospace (Chinese owned) offered to buy 40% of McDonnell-Douglas. Believe it -- the Chinese are coming to the US, with billions of dollars (the Hong Kong Chinese already practically dominate the business district in Vancouver, Canada).

Russell opinion: If the US is to remain prosperous (and I'm not at all convinced that it will), our growing Asiatic population will actually have a huge hand in it. Anyone visiting San Francisco can

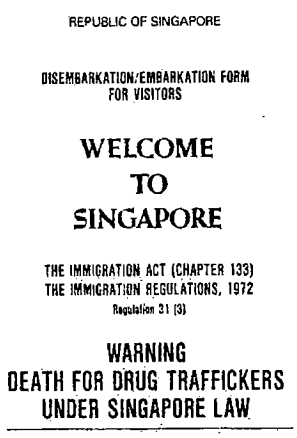
immediately see the influence of the Asiatics (I was in San Fran during Christmas, and all I can say is take a look at who's shopping at San Fran's top stores such as Neiman Marcus or I. Magnin).

At the University of California at Berkeley (which is arguably the choicest school in the California University system) 35% of the enrollment is now Asian, the largest ethnic group in the University (only 30% of the enrollment is white). The Asians and particularly the Chinese are extremely education-minded and they are piling into US universities (and also producing many of the top students).

* *

I've written about Singapore in previous Letters, but I just read a piece by old friend R.E. McMasters (*The Reaper*, PO BOX 84901, Phoenix, AZ 85071). R.E., an inveterate traveler, writes, "I found Singapore to be perhaps the most intriguing city I have ever visited. It is clean, efficient, safe, and mannerly. It's multi-racial and religious culture is complex. It is what a modern city should and could be . . . Singapore is a city that works -- in every imaginable way . . . Singapore is "obsessed with being the best" in everything it does. It is difficult for us in the West to imagine public servants, working for the government, who are efficient, courteous, helpful and supportive of business efforts . . .

"Singapore is one of the world's top three business centers. Singapore has replaced Hong Kong as the word's #1 container port with a record 5.22 million TEUH's of contained traffic handled in 1990. Singapore has been ranked as the world's busiest seaport for five straight years, handling a record 45,000 ships a year. Singapore Airlines is rated the world's best. Singapore's airport is rated the world's top airport. Singapore's telephone network is the first in the world to to be completely push-button. Its Mass Rapid Transit System is ranked number two among industrialized countries. I personally rode the MRT the whole length of the circuit, both north and west. It was spotless, air-conditioned, and modern to a fault. School children regularly ride the MRT from home to school and back without incident. It is safe." Russell Comment: What about drugs? No problem -- and the reason why is posted on the accompanying notice.


REPUBLIC OF SINGAPORE

DISEMBARKATION/EMBARKATION FORM FOR VISITORS

WELCOME TO SINGAPORE

THE IMMIGRATION ACT (CHAPTER 133)
THE IMMIGRATION REGULATIONS, 1972
Regulation 31 (3)

WARNING
DEATH FOR DRUG TRAFFICKERS UNDER SINGAPORE LAW

* *

Job Stats: There are now fewer private-sector jobs in Manhattan than there were in 1980, according to the the Bureau of Labor Statistics . . . A NY-based analytic group (Towers-Perrin) predicts that the US banking industry will lose 100,000 jobs or 6.7% of its work force next year. The Bank Administration Institute recently concluded that over this entire decade bank employment will decline by 250,000. Russell advice to college graduates -- unless your dad owns a bank, don't go into banking.

* *

We just had one of our very rare rains here in San Diego. Southern Californians are not used to rain, and they go crazy during a downpour -- horrendous car pile-ups, houses slide off cliffs, kids slip and break their legs, people hide indoors. During the rain an armed robber held up the Hillcrest Thrifty store here. At gun-point the bandit stole $200 -- and an umbrella.

* *

I hit the stores in the two days before Christmas, and I must say I've never seen anything like it. Everything everywhere was "on sale." And after Christmas, discounts on the sale items. I don't ever remember seeing anything like it -- it was amazing.

WALL STREET: What's a NYSE seat worth? A few weeks ago a seat was sold for $425,000. The highest price ever paid for a seat was just over a million dollars back in the wild, wild days of the 1980s. Memories: I remember in 1949 when the father of a friend of mine bought a seat for $70,000. I thought that was a bundle of money then, but history shows that it was a good buy.

Now the same fellow is retired, and he rents that seat out and lives off the income. So Wall Street proved to be a good friend to my friend. And I might as well admit it, I harbor a secret love for Wall Street. Wall Street has always been good to me, and it doesn't owe me a thing. Furthermore, my family has always been in the market, at least as far back as I can trace (which is back to my great grandfather on my father's side).

You can love Wall Street, but you also have to treat Wall Street with respect. Trust the stock market too far and you'll end up wearing patched pants and shoes with thin soles. But be reasonable, avoid greed, be patient, trust in compounding, and Wall Street can be one of your best buddies.

It seems like only yesterday when I first started watching the ticker tape and learning the symbols (actually, it was back in 1948). A high school buddy, Morris Gratz, was the only guy in my high school class who went down to Wall Street. I used to drop down to see him at his office at Bache & Co on Lexington Avenue at 43 Street. Volume on the NYSE in those days was running one to two million shares a day, and three million shares was a whopper. By today's standards that would be a crashing bore, but I was fascinated.

(Test: you're getting kinda old when you start having flashbacks to ancient symbols of stocks that no longer exist such as A for Anaconda Copper or L for Sinclair Oil or SZ for Symington-Wayne or B for Baldwin-Lima -- hey old timers, remember those?)

At other times (I'm still back in the late '40s) I'd go over to the New York Mercantile Exchange where another friend of mine was the "chalk boy," marking the changing prices for eggs or potatoes on the huge black board at the front of the office.

The markets got in my blood, and that fascination has stayed with me through the years. If you can understand what's going on in the markets, if you can understand what the markets are "saying" (of course, nobody ever FULLY understands what the markets are saying), then you're dealing with almost every nuance and fact and variable on the planet. The whole thing is an ongoing, intriguing puzzle, a puzzle that has baffled, fascinated, battered and rewarded men (and women, of course) ever since a price was first placed on an axhead or a Mammoth skin.

My family has always been in the stock market -- with widely varying results. My grandfather committed suicide when he lost his money and and his jewelry business (in Charleston) during the Panic of 1902. And my uncle committed suicide when he lost most of his money (and he had a lot) in the crash of 1929. So I know only too well that Wall Street can hurt you as well as reward you. And I've learned to be wary of Wall Street as well as having a love affair with it.

The stock market happens to be one of the world's best and toughest teachers. To operate in the market profitably you will have to search your own psyche. And you'll have to correct or adjust to your own faults and weaknesses. Because the market will search out all your faults and weaknesses -- whether they be inordinate fear, greed, selfishness, anger, laziness, naivety, control-madness, self-indulgence, nastiness, or what have you. And if you don't correct those character faults, then beware, because the market will zero in on those defects and work negative wonders on your bank account.

Ned Davis, who turns out those hundreds (I should say thousands) of extraordinary charts, says that the market is really an exercise in limiting your mistakes. Everyone makes mistakes in the market, but a winner is the person who can limit his mistakes. Let me put it another way, or maybe this is just the corollary. "Everybody is wrong on the market at certain times, and that's par for the course. It's OK to be wrong, but the unforgivable act is to STAY wrong."

So in closing this section, I'd say that the three "killers" in investing are (1) impatience, (2) greed, and (3) pride of opinion. Avoid those three (or at least confront them in yourself) and you're

on your way to riches. But let any one of those three control your actions and you'll end up blaming the market and bad-mouthing Wall Street. I know. I've seen it happen over and over again.

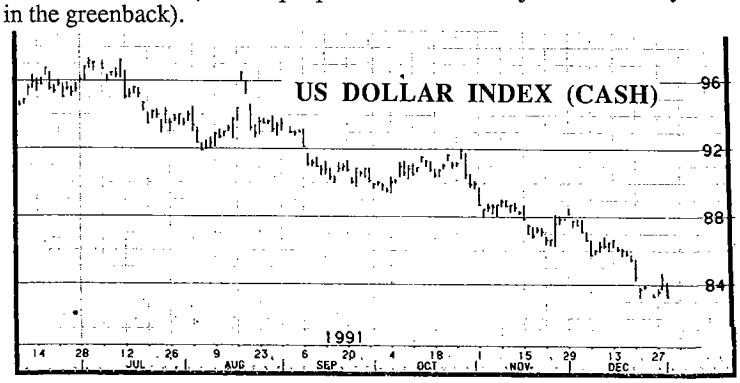
A final word -- know your psyche. Where one person can speculate heavily (and successfully) and sleep like a baby, another person can only sleep if he's compounding super-safe securities. It was said of a big Wall Street operator that I knew well that "he couldn't sleep unless he owed ten million dollars." I learned a long time ago that I'm not that kind of guy. I own my house free and clear, and I don't owe anybody anything. But that's me, and I'm not asking you to be the same way. Just know yourself, know your tolerances, and stay within those tolerances. I told myself years ago that there isn't an investment in the world that I think is worth losing sleep over. I still feel that way.

LATE NOTES: According to the latest issue of *Barron's,* the Dow now earns 100.77 while paying out 92.73 in dividends. This means that the Dow pays out a full 92% of its earnings in dividends. Either the Dow's earnings are headed substantially higher or dividend cuts are in the cards.

At the Dow's current price, the dividend yield on the Dow is 2.80%, a very slim and dangerous return by historical standards. Put another way, investors are now paying 35.70 for each one dollar of Dow dividends. The Dow has only been priced this astronomically high twice before in the last two decades. The first time was in late-1972 just before the start of the great 1973-74 bear market. The second time was in August 1987, just before the crash which wiped out 503 Dow points in a single day. By the way, all the above statistics can also be applied to the S&P 500 (i.e., the yield on the S&P 500 is now 2.89%).

Bulls can advance a dozen reasons why the market deserves to be valued so richly "this time," but the fact remains that historically, every time the Dow or the S&P 500 has sold at a price equal to 33-35 times dividends, the market has been in a top area. So maybe this time it really is different, but personally I don't want to count on it. I'd rather count on history.

THE DOLLAR: All eyes are on the dollar as it bounces around following its long descent during 1991. (Chart courtesy of *Commodity Research Bureau.*) There's been a bit of firmness in the Dollar Index during the opening days of 1992, and, of course, all sane dollar holders are hoping that maybe, just maybe this could be the turnaround (a lot of people would settle for just a little rally in the greenback).



Americans (unless they are traveling or living abroad) don't tend to feel the losses entailed in a falling dollar. But in this new global world, all investments can be likened to the action on a giant flow of funds chart. So speaking for myself, I don't consider it fun to watch all dollar-denominated items (which means almost everything -- our homes, our savings, our stocks and bonds) sinking in terms of hard, overseas currencies.

As I've been saying repeatedly, the main plusses for the dollar are (1) it is very oversold, and (2) it is cheap on a purchasing power parity basis. A dollar's worth of a foreign currency buys very little overseas whereas the dollar really buys a lot in the US.

The bear market in the dollar has cost foreign holders of US assets (bonds, stocks) billions in losses, and I find myself wondering how foreigners have the stomach to hold anything at all in dollars. Maybe they've just been waiting, white-knuckled, for the dollar to rally.

Which brings me to another point. If we do, hopefully , get a good dollar rally, it will pay us to seriously consider a position in German bonds. German bonds (bunds) yield more than US Treasury bonds, and it is probable that Germany has seen its last rate increase. Falling German rates and a declining dollar would give US holders of German bunds a double whammy (i.e., bond PLUS currency appreciation) so it will pay us to watch the action in the dollar very carefully from here on.

GOLD: Ah gold, gold or real money has been doing essentially nothing for the past year. I continue to hold American Barrick (which mysteriously, has done very well), and a few gold mutual funds (which have not done well), and many gold coins.

Gold is our insurance against today's wild and crazy world. It's our insurance against the actions of our know-nothing politicians. It's our insurance against economic or political "accidents." Gold is international money, and whether you're a Russian or a Swahili or a Finn or a citizen of the good ol' US of A, nobody questions the validity or the worth of those shiny little coins.

VIEW from OVERSEAS: I just received the latest report from my colleague, David Fuller (*Fuller Money,* 7 Swallow St., London WIR 7HD, UK). David, who follows just about every overseas market and stock says this: "European stock markets are leading the way down as profits collapse due to high real interest rates. Japan is in no position to lead a global recovery at present with its stock market challenging the lows. German bonds (bunds) are in a class of their own following the Bundesbank's latest Discount Rate rise.. . the German mark will remain the world's strongest currency for a while longer, despite Soviet jitters."

David's "World Market Indicator," which is an advance-decline line of 27 world markets, gave a bear signal last month. Says the Fuller man, "If anyone tried to tell you that this is still a long-term bull market, ask them how that can be when of the 27 markets covered here, only six reached new highs in 1991, only two of which were significantly higher (Hong Kong and S. Africa), while the average decline from the record highs is 29% . . . Unfortunately, that does not square with Wall Street coming off its high after a record valuation."

A few late thoughts: I'm more and more fascinated by this whole market/economy situation. Here we are, with the Dow and the S&P 500 Composite valued at high-high prices, and everyone's waiting for the economy to show signs of life. Each upward blip in any indicator is seized upon by analysts as early proof that the worst is past. Brokerage house analysts offer hopeful predictions on radio and TV. President Bush promises "jobs, jobs, jobs" while at the same time blaming Japan and the Democrats for our troubles. The Fed for the first time in years is buying Treasury debt while pumping up the banks reserves in its all-out desperate effort to re-inflate the deflated US economy.

It's as tense and dramatic an economic drama as you'll ever want to see, and on top of everything else there's an election coming up, and the market figures that the Administration will do anything short of moving troops into Haiti to get re-elected (It will be a "dog-eat-dog fight" says Mr. Bush, which, as I translate it, means that it will be a dirty fight).

FLASH: *IQ Trends* of La Jolla has just informed me that the Percentage of Undervalued Blue-Chip stocks has dropped to **9%.** This is the lowest percentage ever recorded by this study, and statistics go back to the mid 1960s. Stock values are now few and far between, and buyers are now throwing caution to the wind.

NEXT MAILING: Jan. 22